

## Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00  
SSO-00 ICAE-00 INRE-00 GSA-02 AF-10 ARA-10 EA-10  
EUR-12 NEA-11 CTME-00 JUSE-00 AGRE-00 CEA-01  
COME-00 FRB-03 H-01 INR-10 INT-05 L-03 LAB-04  
PA-01 AID-05 SS-15 STR-07 ITC-01 TRSE-00 SP-02  
SOE-02 OMB-01 DOE-15 /140 W  
-----052773 021655Z /46

O R 021630Z JUN 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 6774  
INFO AMEMBASSY BANGKOK  
AMEMBASSY KUALA LUMPUR

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FOR: EB/ISM - LENAHAH

E.O. 11652: N/A  
TAGS: EMIN, ETRD, ITC  
SUBJECT: TIN - EXCERPTS FROM ITC/CAP REPORT

1. QUOTED BELOW ARE MAJOR PARTS OF THE REPORT OF THE  
INTERNATIONAL TIN COUNCIL'S COST AND PRICES COMMITTEE  
(CAP) TO THE ECONOMIC AND PRICE REVIEW PANEL (EPRP).  
FULL TEXT WILL BE AIR-MAILED TO LENAHAH, EB/ISM, AND  
WILL BE AVAILABLE FROM ITC AT BANGKOK EPRP  
MEETING. MEETING WAS HELD MAY 23. STATISTICAL ANNEX  
WILL BE SENT BY SEPTTEL.

2. PARENTHESED NOTES ARE BY EMBASSY. QUOTE:  
COST ANALYSIS

SUMMARIES 1 AND 3 COVERING THE PERIOD 1971-77 ....  
SHOW A GENERAL UPWARD TREND IN UNIT COSTS FOR ALL  
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METHODS OF MINING.

THE COMMITTEE QUESTIONED WHETHER THE SAMPLES USED BY  
INDONESIA GAVE A TRUE REPRESENTATION OF COSTS IN VIEW OF  
COST/PRODUCTION RATIOS. IT WAS INFORMED THAT A SPECIAL  
EFFORT IS BEING MADE TO ACHIEVE REPRESENTATIVE SAMPLINGS  
BY CHANGING THE MINES IN THE SAMPLE FROM PERIOD TO PERI-

OD. THE COMMITTEE WAS ALSO INFORMED THAT THE 1977 DATA ON THE GRAVEL PUMP GROUP OF MINES FOR INDONESIA INCLUDES PRIVATE AND CONTRACTED MINES. (NOTE: UNRESOLVED DOUBT WAS THAT INDONESIA SAMPLE WAS EXCESSIVELY WEIGHTED TOWARD HIGHER COST ANALYSIS).

FOR THE UNITED KINGDOM, IN THE LIGHT OF THE ANNOUNCED CLOSURE OF TWO CORNISH TIN MINES, THE COMMITTEE AGREED THAT THE UK DELEGATION SHOULD BE ASKED TO PROVIDE ADVICE ON THE LATEST DEVELOPMENTS IN RESPECT OF THESE MINES. (NOTE: UK NOT AT MEETING)

SUMMARIES 2 AND 4 GIVE THE INDEX NUMBERS (1971 = 100) OF UNIT TIN PRODUCTION COSTS RESPECTIVELY INCLUDING AND EXCLUDING ROYALTIES, EXPORT DUTIES AND TRIBUTES. UNIT COSTS HAVE INCREASED FROM 1971-77 BY PROPORTIONS RANGING UP TO 186PCT (ROYALTIES INCLUDED) AND UP TO 175PCT (ROYALTIES EXCLUDED).

SUMMARIES 5 AND 6 GIVE UNIT COSTS EXPRESSED IN M\$/PIKUL EQUIVALENT AND INDEX NUMBERS FOR ROYALTIES, EXPORT DUTY AND TRIBUTES BY COUNTRY AND METHOD OF MINING FROM 1971 TO 1977. THE COMMITTEE NOTED THE CHANGES IN THE TAX SYSTEM WHICH HAD TAKEN PLACE IN THAILAND. THAI PRODUCTION COSTS DURING THE SECOND HALF OF 1977 HAD BEEN AFFECTED BY THE MID-JULY CHANGE IN TAXATION, BUT THE LIMITED OFFICIAL USE

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MORE RECENT (FEBRUARY 1978) CHANGE SHOULD REDUCE RELATIVELY THE AMOUNT OF TAX DURING THE FIRST HALF OF 1978. HIGH UNIT COSTS FOR SOME COUNTRIES REFLECT ROYALTIES AND EXPORT DUTIES AT THE PRICE LEVEL PREVAILING IN JULY-DECEMBER 1977.

SUMMARY 7 GIVES WEIGHTED AVERAGE UNIT COSTS, BY COUNTRY, EXPRESSED IN TERMS OF M\$/PIKUL EQUIVALENT, INCLUDING (#R) AND EXCLUDING (-R) ROYALTIES, EXPORT DUTIES AND TRIBUTES. THE WEIGHTED AVERAGES HAVE BEEN OBTAINED BY WEIGHTING UNIT COSTS OF INDIVIDUAL METHODS OF MINING ACCORDING TO THEIR RELATIVE IMPORTANCE WITHIN EACH COUNTRY IN ANY GIVEN PERIOD. THE WEIGHTED AVERAGE UNIT COSTS FOR THE RESPONDING COUNTRIES HAVE BEEN CALCULATED, IN TURN, BY WEIGHTING THE WEIGHTED UNIT COSTS OF EACH COUNTRY ON THE BASIS OF THE RESPECTIVE TOTAL PRODUCTION OF TIN-IN-CONCENTRATES AS STATED IN THE REPLIES TO THE QUESTIONNAIRE ON TIN PRODUCTION COSTS.

THE TABLE SHOWS THAT IN THE SECOND HALF OF 1977 THE WEIGHTED AVERAGE UNIT COSTS #R AND -R OF THE RESPONDING COUNTRIES ARE M\$1,340/PIKUL EQUIVALENT AND M\$974/PIKUL EQUIVALENT, RESPECTIVELY. THE # R UNIT COSTS VARY FROM

A MAXIMUM OF M\$1,527/PIKUL EQUIVALENT FOR BOLIVIA TO A  
MINIMUM OF M\$966/PIKUL EQUIVALENT FOR AUSTRALIA. THE -R  
UNIT COSTS VARY BETWEEN A MAXIMUM OF M\$1,419/PIKUL  
EQUIVALENT FOR THE UNITED KINGDOM AND M\$672/PIKUL

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SOE-02 OMB-01 DOE-15 /140 W  
-----052777 021656Z /46

O R 021630Z JUN 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 6775  
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EQUIVALENT FOR THAILAND. THE #R AVERAGE UNIT COSTS  
INCREASED BY 14 PCT BETWEEN FIRST AND SECOND HALF OF 1977  
AND BY 31 PCT BETWEEN THE SECOND HALF OF 1976 AND THE  
SECOND HALF OF 1977. THE -R AVERAGE UNIT COSTS IN-  
CREASED BY 13PCT BETWEEN FIRST AND SECOND HALF OF 1977  
AND BY 27 PCT BETWEEN THE SECOND HALF OF 1976 AND THE  
SECOND HALF OF 1977.

CHARTS 1 AND 2 ILLUSTRATE THE TREND IN UNIT COSTS  
(WEIGHTED AVERAGE) IN RELATION TO THE PRICE RANGE IN  
THE AGREEMENT AND TO THE PENANG TIN PRICE. FROM CHART 1  
IT WILL BE SEEN THAT THE WEIGHTED AVERAGE COST (#R) HAS  
GENERALLY LAIN WITHIN THE PRICE RANGE BUT THE UPPER  
AVERAGE GROUP (25 TO 30 PCT OF PRODUCTION) HAS GENERALLY  
EXCEEDED THE CEILING PRICE. CHART 2 SHOWS THE UPPER  
AVERAGE GROUP (-R) GENERALLY WITHIN THE PRICE RANGE.

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SUMMARY 8 GIVES PRODUCTION OF TIN-IN-CONCENTRATES BY COUNTRY AND METHOD OF MINING IN TERMS OF SHARE OF NATIONAL PRODUCTION WITHIN EACH COUNTRY AND OF TOTAL WORLD PRODUCTION. THE PURPOSE OF THE TABLE IS TO ASSIST THE PANEL IN ITS EVALUATION OF THE COST FIGURES RELATING TO DIFFERENT CLASSES OF MINING.

IN SUMMARY 9 UNIT PRODUCTION COSTS OF INDIVIDUAL METHODS OF MINING INCLUDING ROYALTIES, EXPORT DUTY AND TRIBUTES ARE RANKED IN DECREASING ORDER AND RELATED TO THE AVERAGE UNIT COST OF THE RESPONDING COUNTRIES (M\$1,340/PIKUL EQUIVALENT), AND TO THE CURRENT ITA FLOOR PRICE (M\$1,200/PIKUL). THE SUMMARY ALSO INCLUDES INDIVIDUAL AND CUMULATIVE SHARES OF THE RANKED METHODS OF MINING. UNIT COSTS OF 43 PCT OF WORLD PRODUCTION EXCEED THE AVERAGE, AND UNIT COSTS OF 51 PCT OF WORLD PRODUCTION EXCEED THE FLOOR PRICE.

THE COMMITTEE REVIEWED THE PERCENTAGE CHARGES IN THE PRINCIPAL ELEMENTS OF COSTS: POWER, SALARIES AND LABOUR, MATERIALS, OTHER CHARGES AND OVERHEADS, DEPRECIATION, ON-PROPERTIES EXPLORATION AND DEVELOPMENT AND REALISATION COSTS. SUBSTANTIAL INCREASES IN MOST ITEMS WERE NOTED.

....

COSTS FOR CERTAIN COST ITEMS SUCH AS POWER, SALARIES AND LABOUR AND MATERIALS HAVE BEEN INCREASING SIGNIFICANTLY; POWER HAS INCREASED MAINLY BECAUSE OF THE HIGHER FUEL PRICES, AND SALARIES AND LABOUR BECAUSE OF THE NEW SALARY INCREASES AWARDED. MATERIALS AND EQUIPMENT USED IN THE TIN MINING INDUSTRY ARE MAINLY IMPORTED FROM INDUSTRIALISED COUNTRIES, WHERE PRICES HAVE ALSO INCREASED APPRECIABLY IN THE LAST FEW YEARS.

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THE INCREASE IN BOLIVIA'S REALISATION UNIT COSTS WAS EXPLAINED AS ARISING FROM TRANSPORTATION COSTS AND SMELTING CHARGES. TRANSPORTATION COSTS ARE HIGH BECAUSE BOLIVIA IS A LANDLOCKED COUNTRY AND ABOUT HALF OF THE DOMESTIC PRODUCTION OF TIN CONCENTRATES IS EXPORTED THROUGH FOREIGN PORTS, WHOSE CHARGES HAVE INCREASED. IN ADDITION SMELTING CHARGES ABROAD HAVE ALSO INCREASED. (NOTE: BOLIVIAN DELEGATION WAS NOT ABLE TO PROVIDE

DETAILED FACTOR ANALYSIS OF INCREASE).

TIN PRICES AND ECONOMIC DATA

THE COMMITTEE CONSIDERED TABLES 1 TO 13 RELATING

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-----052851 021656Z /46

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TO TIN PRICES, ECONOMIC INDICATORS, EXCHANGE RATES AND  
PRICES OF OTHER MAJOR COMMODITIES.

THE COMMITTEE RECEIVED A PROGRESS REPORT ON THE  
PRICE/INFLATION RELATIONSHIP CURRENTLY IN HAND. A  
NUMBER OF DEFLATORS ARE BEING TRIED TO DEFLATE PRICE  
SERIES. A COMPREHENSIVE PAPER WILL BE CIRCULATED AS  
SOON AS PRACTICABLE.

RESERVATIONS WERE EXPRESSED BY SOME COMMITTEE  
MEMBERS ABOUT THE UTILITY OF TABLES ON INDUSTRIAL PRO-  
DUCTION (TABLE 9) AND ON THE EQUIVALENT OF THE PENANG  
TIN PRICE, DEFLATED (TABLE 12). THE COMMITTEE AGREED  
THAT THE INDICES ON INDUSTRIAL PRODUCTION PROVIDED A  
GOOD MEASURE OF INDUSTRIAL ACTIVITY TO WHICH TIN CON-

SUMPTION MIGHT BE RELATED. THE COMMITTEE ALSO AGREED THAT THE CONSUMER PRICE INDICES USED AS A DEFLATOR FOR LIMITED OFFICIAL USE

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THE PENANG TIN PRICES WERE READILY AVAILABLE FOR ALL COUNTRIES AND THAT FURTHER THOUGHT SHOULD BE GIVEN TO THE POSSIBLE USE OF OTHER DEFLATORS SUCH AS WHOLESALE PRICE INDICES.

CONSUMPTION COST DATA

THE BOLIVIAN DELEGATE POINTED OUT THAT, SO FAR, THE COUNCIL HAS BEEN CARRYING OUT REGULAR REVIEWS OF TIN PRODUCTION COSTS BUT NOTHING HAS BEEN DONE TO ANALYSE THE IMPACT OF THE TIN PRICE ON TIN-CONTAINING PRODUCTS. HE SUGGESTED THAT THE COUNCIL SHOULD HAVE A MORE BALANCED APPROACH TO THE PROBLEM OF THE RELATIONSHIP OF TIN COST/PRICE BY LOOKING AT THE TIN COST INVOLVEMENT OF THE TIN USERS THROUGHOUT THE WORLD. THE COMMITTEE WAS REMINDED THAT SOME OF THE TIN COST INVOLVEMENT OF TIN USERS WILL BE TOUCHED UPON BY THE AGREED STUDY ON CONSUMPTION WHICH WILL BE UNDERTAKEN SHORTLY WITHIN THE COMMITTEE ON DEVELOPMENT. THE COMMITTEE AGREED THAT FURTHER THOUGHT SHOULD BE GIVEN TO THIS SUGGESTION. UNQUOTE.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TIN, REPORTS, COMMITTEE MEETINGS, PRICE INDEXES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014